IDAHO POWER
An IDACORP Company

LARRY D. RIPLEY
Senior Attorney

December 28, 2001

Ms. Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-01-34
Response of Idaho Power Company To Comments

Dear Ms. Jewell:

Please find enclosed for filing an original and eight (8) copies of the Response of Idaho Power Company to comments which have been filed in the above-described case.

I would appreciate it if you would return a stamped copy of this transmittal letter for our files.

Very truly yours,

Larry D. Ripley

LDR:jb
Enclosures

LARRY D. RIPLEY ISB #965
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
Phone: (208) 388-2674
FAX: (208) 388-6936

Attorney for Idaho Power Company

Express Mail Address

1221 West Idaho Street
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ORDER APPROVING THE COSTS TO BE INCLUDED IN THE 2002/2003 PCA YEAR FOR THE IRRIGATION LOAD REDUCTION PROGRAM AND ASTARIS LOAD REDUCTION AGREEMENT	CASE NO. IPC-E-01-34 RESPONSE OF IDAHO POWER COMPANY TO COMMENTS

As provided by the Commission's Notice of Modified Procedure dated November 8, 2001, comments to the Application of Idaho Power Company ("Idaho Power" or "the Company") have been filed. These comments require a response from the Company.

Two formal comments were filed, one by the Idaho Irrigation Pumpers' Association, Inc. ("Irrigators Association"), and another by the Commission Staff ("Staff"). In addition, the Commission received a number of public comments by mail and electronically. Idaho Power Company will respond separately to the comments of the public, the Irrigators Association, and the Staff.

PUBLIC COMMENTS

The public comments essentially discuss three issues:

That the Company's expenditures in both the Irrigation Load Reduction Program and the Astaris Load Reduction Program have not been prudent in that (1) the programs have not been successful and (2) the Company has lost money on these programs; and (3) a belief that the Company is applying for a rate increase in this Application.

1. The Voluntary Load Reduction Programs Were Successful

For the calendar year 2001 the voluntary load reduction programs initiated by the Company were successful. In concert with the efforts of other Northwest utilities, the voluntary load reduction programs sponsored in the Pacific Northwest caused a reduction in the demand for electricity and, accordingly, the price for wholesale electricity declined substantially. While there were a number of factors that contributed to this price reduction, it cannot be disputed that for the year 2001 the voluntary load reduction programs resulted in lower wholesale prices. As was reported in the fall of 2001 by the Northwest Power Planning Council, the irrigation load reduction programs and industrial load reduction programs initiated in the Pacific Northwest caused a reduction in the demand for electricity. Idaho Power's load reduction programs for irrigation and Astaris contributed to this reduction in demand. The reduction in demand had a positive impact upon the ability of existing resources to meet the requirements of the Pacific Northwest and in particular the service territory of Idaho Power. While the monetary value of the load reduction programs cannot be computed with precision, individuals that assert, after the fact, that the programs were not successful can point to nothing that would demonstrate that assertion is accurate. Idaho Power and the other Northwest utilities can, however, demonstrate that there was a significant reduction in demand. Thus, to an unbiased observer, it is clear that the load reduction programs in 2001 were successful.

2. The Company Did Not Lose Money On The Load Reduction Programs

The load reduction programs were implemented at a time when the Company and its customers could not risk any additional rate exposure during 2001. Additionally, the load reduction programs were initiated in recognition that the Company could pay certain customers to reduce their consumption of power at a lower overall cost when compared to forward purchases to supply that consumption. The payments that were made to these customers were at a price which was below that which the Company would have had to pay to acquire the resources necessary to provide service to these customers if they were to continue to consume power. At the time of the public proceedings held to determine if Idaho Power should enter into the voluntary load reduction programs, it was clear that the cost to compensate the customers that would reduce their consumption would be treated in the same manner as if Idaho Power had purchased a block of power that would be required if the customers were to consume power. Again, these costs were recognized as being lower than the cost to acquire power. As a result, it was the consumers of Idaho Power that obtained the benefit of these load reduction programs in the form of reduced power costs. Thus, Idaho Power did not “lose money” by paying customers to reduce their load. Customers of Idaho Power benefited from having power supply costs that were lower than if the Company had purchased the power and resold the power to its customers. Had the Company simply covered expected summer deficiencies through additional forward purchases and not entered into load reduction programs, the net cost to those customers in the year 2001 would have been higher. The payments made to the Company's irrigation customers and Astaris must be treated in the same manner as if Idaho Power had purchased power. Before ever entering into the irrigation or Astaris load reduction programs, the Company applied for and obtained all of the approvals necessary after full public proceedings to ensure that it would recover the costs of the payments it had made.

Irrigation Load Reduction Program

For those public commenters that believe Idaho Power "lost money" on the Irrigation Load Reduction Program, Idaho Power would briefly restate the basis upon which that program was instituted.

It was recognized by all of the participants at the time the Irrigation Load Reduction Program was instituted, including the Irrigators Association, there would be a cost of the Irrigation Program. That cost included direct payments to irrigators and a reduction in irrigation class revenues. The Company could not offer the program without recovery of the revenues that would be lost because to do so would result in an inequitable sharing of costs. This requirement was based on the manner in which the Company's prices for retail power are calculated. The revenues that the Company must receive are based on the revenues needed to support the Company's costs and investment required to provide ongoing service to the irrigation customers. The costs and facilities remain even though the irrigation customer reduces energy consumption for one year due to the Irrigation Load Reduction Program. As was provided in the Commission's original orders approving the Irrigation Voluntary Load Reduction Program:

> IT IS FURTHER ORDERED that the direct costs and lost revenue impacts of this Program may be treated as a purchased power expense in the Power Cost Adjustment. The Commission also finds that Idaho Power and the parties shall develop and present a proposal to the Commission recommending a procedure to calculate the appropriate amount of lost revenues that should be passed through the Company's Power Cost Adjustment mechanism prior to actual recovery in rates.
>
> Order No. 28699, p. 21.

Astaris Program

In regard to the Astaris Load Reduction Program, the Company has a take-or-pay contract and, accordingly, there was no lost revenue in 2001, nor did Idaho Power request any lost revenues for the Astaris Program.

3. The Company Is Not Applying For An Increase in Rates

Unfortunately the procedure that the Company believes it must follow has created a certain amount of confusion with the Company's customers. Under accounting requirements and requirements of regulatory agencies, the Company cannot defer expenses from one financial year to another financial year without receiving an indication from the appropriate regulatory agencies that it is authorized to do so. Accordingly, as it has done in this proceeding, the Company is required to file for accounting orders which permit the deferral of expenditures from one financial year into the succeeding year. The Company also believes that it should advise its customers that the deferral of these amounts into next year's Power Cost Adjustment proceeding could cause an increase that would be obtained when the Company's Power Cost Adjustment rate is changed in May. This process, while appearing to be complex, is necessitated by financial and accounting requirements. These applications cannot be avoided, although the Company is sympathetic that the filing of the applications causes confusion among its customers.

The Company cannot assure its customers that the applications will not cause an increase in rates, but at the same time the Company is not requesting an increase in rates at the time it files its applications for accounting orders. In response to the comments that have been filed, the Company can only state that it is not requesting an increase in rates in this proceeding.

IRRIGATORS ASSOCIATION COMMENTS

The Irrigators Association comments discuss three proposed modifications to the methodology put forth by the Company for computing the revenue impact due to the Irrigation Load Reduction Program. These proposed modifications are:

1. The five-year average demand rather than the 2000 demand should be used to calculate the demand component of reduced revenue.

2. The reduced revenue should not include a component associated with the forecast portion of the PCA rate.

3. The reduced revenue should not include a component associated with the true-up portion of the PCA rate.

Five-Year Average Demand

The Irrigators Association contends that a five-year average demand rather than the 2000 demand should be used to calculate the demand component of reduced revenue, thus eliminating a portion of the amount of reduced revenue the Company should be allowed to recover. This contention is erroneous for a number of reasons. First, unlike energy usage, irrigation demand is not weather sensitive. If a pump is operated for one hour during a month or 720 hours during a month, the peak demand will be the same; however, the energy usage will vary significantly depending on the number of hours of operation. For the majority of participants in the voluntary Irrigation Load Reduction Program, the five-year average demand on a month-by-month basis will be the same as the 2000 demand on a month-by-month basis simply due to the fact that the peak demand for a pump is consistent from year to year. However, a five-year average was not utilized to compute the base energy amount for all customers participating in the Program. As detailed in the Request for Proposals issued to irrigation customers on February 16, 2001, the average kWh consumption at each metered service point during the immediately preceding five years was used to compute the base consumption amount for each customer *unless* a change in pumping horsepower at a metered service point was demonstrated by the customer desiring to participate in the Irrigation Load Reduction Program. The base energy amount for customers participating in the Irrigation Load Reduction Program whose billing records demonstrated a change in their pumping horsepower during the five-year historical period was calculated using the energy consumption for the 2000 growing season or, at the Company's discretion, the period of time consistent with the revised horsepower. Again, in these situations, the average of the demand on a month-by-month basis over the number of years used to compute the base energy amount would be the same as the 2000 month-by-month demand; however, due to the increase in pumping horsepower during the five-year period, a five-year average demand would be less than the 2000 demand. Using a five-year average in these cases would cause a mismatch between the data used to calculate the base energy usage and the data used to calculate the demand component. Utilizing a five-year average to calculate the demand component would not be consistent with the methodology used to compute the base energy amount and would unfairly penalize the Company by reducing the amount of reduced revenue which could be recovered through the PCA.

Second, the Irrigators Association assumes that the energy and demand components of irrigation usage are relatively proportional. As pointed out earlier, the amount of energy consumed relative to demand is highly affected by the weather. Assuming that the percentage change in demand over a five-year period is equal to the percentage change in energy consumption is unfounded. Likewise, making an adjustment to the amount of reduced revenue based on this assumption is unfounded.

Finally, the adjustment suggested by the Irrigators Association takes a global approach to computing the reduced revenue demand component. As detailed in the direct testimony of Ms. Brilz (Brilz, Tr. at p. 19, IPC-E-01-03; Brilz, Di. at p. 5-6, IPC-E-01-34), the Company has proposed computing the demand component of reduced revenue on a customer-by-customer, month-by-month, and service point-by-service point basis. This methodology, unlike that proposed by the Irrigators Association, closely ties the calculation of the revenue impact with the actual behavior of each customer participating in the voluntary Irrigation Load Reduction Program.

Forecast Portion of the PCA Rate

The Irrigators Association contends that the Company should not receive any lost revenues associated with the forecast portion of the PCA rate because the Company would not have incurred those costs of providing energy as a result of the irrigation load reduction. Implicit in this theory is a belief that the forecasted power supply expenses for the forecasted period are too high. One need only look at the monthly PCA true-up reports to discover that this premise is false. The Company's PCA expenses for the current year are significantly higher than forecast even with the voluntary load reduction of the irrigation class. The Irrigators Association's proposal to eliminate the recovery of valid PCA expenses is inappropriate.

True-Up Portion of the PCA Rate

The Irrigators Association states that the Company should not receive any lost revenues associated with last year's true-up amount because there is no guarantee that the Company will actually recover its true-up dollars through PCA treatment. While this is true, the Company typically has the opportunity to recover its expenses by including valid PCA expenses in the computation of the true-up component. By eliminating a portion of the costs of the voluntary load reduction program, the Irrigators Association is attempting to guarantee that the Company does not have the opportunity to recover a portion of the costs of this program. Even if the expenses are included, there is no guarantee that those expenses will be recovered next year.

The loss of revenue resulting from reduction in the loads of the Irrigation class this year are a direct result of the load reduction program and must be considered an allowable PCA expense.

COMMISSION STAFF COMMENTS

The Company does not take issue with Staff's comments as they relate to the amount to be recovered in this proceeding. The Company also does not take issue with Staff's characterization of the Astaris agreement or the resulting amount through September 2001 that will be included in the Power Cost Adjustment deferral. Staff, in describing the Astaris contract, however, states that the current power supply contract expires on December 31, 2003. As indicated in the letter agreement attached to Order No. 28695 in Case No. IPC-E-01-09, the contract will expire on March 31, 2003. While this does not affect Staff's conclusions in this proceeding, the Company does believe that it is important to clear up this misunderstanding.

ADDITIONAL UPDATE

The Company requests that the Commission's order that is issued in this proceeding permit the Company to file information that would update the deferred amount through December 31, 2001. This would essentially be the continuation of the Astaris payments through year end and the required true-up amounts for the irrigation program. As the Commission is aware, the irrigation program ended on November 30, 2001. Permitting this supplementary filing would finalize the voluntary load reduction costs for the calendar year 2001. The Company submits that such a determination is in the public interest in that all parties will know the cost for the voluntary load reduction programs for the calendar year 2001, and the Company will be in a position to be assured that it has deferred the correct amount.

IRRIGATORS ASSOCIATION INTERVENOR FUNDING

While the Company does not concur in the position taken by the Irrigators Association, the Company has no objection to an award of intervenor funding to the Irrigators Association in the amount of $7,314.19. The Company requests that this amount be included in the Company's deferral for recovery in next year's Power Cost Adjustment filing.

NO HEARING IS REQUIRED

Neither the Staff nor the Irrigators Association requested that a hearing in this matter be held. While some of the public commentators requested a hearing, those public commentators did not state what evidence they would submit if an evidentiary proceeding were held. The Company respectfully submits that an evidentiary proceeding in this matter is not necessary.

CONCLUSION

In summary, Idaho Power requests that the Commission issue its order in this proceeding approving:

1. The methodology proposed by the Company for calculating the reduced revenue impact as a result of the Irrigation Load Reduction Program.

2. Inclusion in the PCA deferral, costs of $48,319,108 incurred in the Irrigation Load Reduction Program from April 2001 through September 2001.

3. Inclusion in the PCA deferral, reduced revenue costs of $9,783,625 incurred in the Irrigation Load Reduction Program from April 2001 through September 2001.

4. Inclusion in the PCA deferral, costs of $41,749,914 incurred from April 2001 through September 2001 as a result of the Astaris load reduction program.

5. The intervenor funding award of $7,314.19 with recovery of the payment to be included in next year's PCA amount.

6. The accrual of interest at the rate of six percent (6%) on the outstanding deferred balances.

7. The Company be authorized to update the deferred amount for costs incurred under the load reduction programs through December 31, 2001.

DATED at Boise, Idaho, this 28th day of December, 2001

LARRY D. RIPLEY
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 28th day of December, 2001, I served a true and correct copy of the within and foregoing RESPONSE OF IDAHO POWER COMPANY TO COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

John Hammond Deputy Attorney General Idaho Public Utilities Commission 472 W. Washington Street P.O. Box 83720 Boise, Idaho 83720-0074	x ___ ___ ___	Hand Delivered U.S. Mail Overnight Mail FAX
Randall C. Budge Racine, Olson, Nye, Budge & Bailey P.O. Box 1391 201 E. Center Pocatello, Idaho 83204-1391	___ x ___ ___	Hand Delivered U.S. Mail Overnight Mail FAX
Anthony Yankel 29814 Lake Road Bay Village, Ohio 44140	___ x ___ ___	Hand Delivered U.S. Mail Overnight Mail FAX
Conley E. Ward Givens, Pursley LLP 277 North 6th Street, Suite 200 P. O. Box 2720 Boise, Idaho 83701-2720	___ x ___ ___	Hand Delivered U.S. Mail Overnight Mail FAX
Alan W. Seder Astaris LLC 622 Emerson Road, 5th Floor St. Louis, Missouri 63141	___ x ___ ___	Hand Delivered U.S. Mail Overnight Mail FAX

____

LARRY D. RIPLEY